
American

Economic

Policy and

National Security

Theodore H. Moran



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INTRODUCTION

How does the management of the domestic economy affect U.S. national security? What are the threats that mismanagement creates? Should the search for something entitled "economic security" be high on the agenda of American strategists as they confront an evolving world order?

There is a growing suspicion, not limited to Washington, that the great economic questions that affect America's position in the world, its ability to lead, its capacity to control its own destiny, are too important to be left to economists. These questions are:

- *Is the United States in decline as a great power?* Is the United States undergoing a process of cumulative economic deterioration vis-à-vis other industrial nations, or simply receding a bit from the exceptional position of supremacy it enjoyed in the first two decades after the devastation of Europe and Japan?
- *Will Americans end up "sweeping up" around Asian or European machinery?* Are the industrial successes of Japan or the European Community (EC-92) changing the structure of the American economy in ways that may come to haunt the United States in the future, or will the market provide outcomes that are satisfactory?

- *Computer chips, potato chips—what's the difference?* Does the globalization of the American industrial base carry genuine dangers of foreign dependency?

The discipline of economics arouses natural suspicion among those concerned with questions of national security. Its infatuation with consumer welfare, its indifference to the fate of producers, its agnosticism about the nationality of suppliers, its passion for international comparative advantage, and its scorn for relative rather than mutual gains do not appear to fit well with the goals of maximizing America's potency as a player among nations or of safeguarding the nation's standing against displacement by others.

Nonetheless, I shall argue that careful economic analysis can help us delineate the relationship between domestic economic policy and national security, specify the hazards of policy mismanagement, and provide guidelines for future behavior. Our first task is to identify the threats hidden in the changing shape of the international economy that American policy should be designed to counter or avoid.

This study focuses on three threats to America's ability to lead or influence others, in accord with its own values, and to behave autonomously: (1) fundamental and cumulative economic decline; (2) loss of specific economic and technological capabilities; and (3) dependence on external suppliers.¹ The three overlap but are conceptually distinct. Mixed among them are factors that are genuinely worrisome but can be corrected, factors that are mistakenly viewed with alarm and may be disregarded, and factors that are unavoidable but worthy of some insurance coverage.

Despite the economic basis of these threats, noneconomic judgments must also guide policy. Some of the areas in which noneconomic judgments emerge are familiar: the choice, for example, between maximizing America's economic welfare and maximizing its political power (sacrificing mutual economic benefits to ensure an advantageous relative distribution of economic benefits, so as to enhance the nation's ability to influence others), or between maximizing economic welfare and minimizing the nation's vulnerability to being coerced by outsiders. Other areas in which noneconomic judgments come into play, however, will require some basic reconsideration of what constitutes national security in the new era. Besides the focus on national power, there are *systemic* considerations about the impact alternative domestic economic policies will have on the propensity for cooperation or antagonism among the major industrial nations themselves. The economic responses to the three threats cluster together in two alternative policy packages where the whole (in each case) is greater than the sum of its parts. The choice between them depends upon one's vision of the structure of the international system in the coming era and upon one's assessment of the ability of national leaders to guide their publics in ways that do not undermine that vision.

At the end of the day, therefore, a grand strategy that defines the kind of structure the United States would prefer for the international system, assesses the risks of moving toward one structure rather than another, and distributes the burden of payment between present and future generations must dominate the design of appropriate policies.